

8 MAY 1949

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GENERAL

1. Prospects for Austrian treaty talks--The Department of State has informed US representative Reber at the Austrian treaty talks that it does not desire to discuss the problem of Austria at any forthcoming CFM meeting until substantial agreement is reached on German issues. The Department does not wish to link the Austrian treaty to a possible deadlock on Germany, thus prejudicing future Austrian talks, and understands that the British and French concur in this approach. The Department desires that discussions of the Austrian treaty be continued in order to clarify secondary issues and to ascertain Soviet intentions, that a recess be obtained shortly before a CFM meeting, and that negotiations be resumed simultaneously with the CFM meeting.

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Austrian Foreign Minister Gruber has expressed the hope to US Minister Erhardt in Vienna that, if no agreement is reached on Austria either at a CFM meeting or during the London talks, the western powers will make a sweeping proposal advocating that occupation of Austria be terminated within six months or a year and that, in the meantime, occupation controls be relaxed and the Austrian army be built up. Erhardt agrees substantially with Gruber, despite the fact that Gruber's proposal would take western forces out of Austria while the USSR retained German assets in Austria and the frontier issue remained unsettled.

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FAR EAST

NO. 028

2. CHINA: Communists seek trade with Japan--US Consul General Clubb in Peiping reports that the Chinese Communists have solicited the help of a private US firm in promoting trade between North China and Japan on a barter basis. The firm's representative has asked whether the State Department

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and SCAP would approve in principle of such trade. Clubb requests authorization to inform the Communists, when they inquire about such trade, that the US would be ready to give sympathetic consideration to its facilitation provided US consular establishments in Communist-controlled areas were permitted to function normally. Clubb transmits his firm belief that such an opportunity to insert an opening wedge between Communist China and the USSR should be promptly and fully exploited.

Shanghai near economic collapse--US Consul General Cabot in Shanghai reports that Shanghai faces catastrophic conditions. According to Cabot, public confidence in the Nationalist currency has practically vanished, employers are unable to meet their payrolls, and foreign businessmen fear that conditions will become so bad that the people of Shanghai will welcome the arrival of the Communists. Cabot considers it essential that the US continue the present ECA program for Shanghai because its curtailment at this time would lead to such serious food and supply shortages that economic collapse would be complete. Cabot believes, however, that ECA stocks in Shanghai should be kept at prudently low levels.

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